

# The Milkweed

Dairy's best information and insights

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## MPC/Casein Imports Peak Early in Low Milk-Price Years

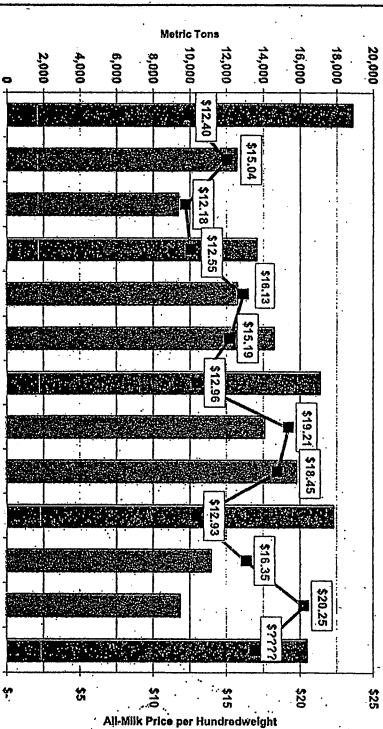
by Pete Hardin

'03 ... '06 ... '09 ... and now '12. The logic that U.S. dairy farmers' milk prices must take a beating every third year has become almost "text-book wisdom" ... without much insight about cause(s) for these emotionally depressing, equity-eroding, red ink-spewing triennial events.

Perhaps we've finally unveiled the reason for these disastrous farm milk price cycles every three years: January-February dairy protein imports. The colored chart on this page summarizes exhaustive research by *The Milkweed* that has collected annual data for the months of January-February involving Milk Protein Concentrates and food-grade casein imports from 2000 through 2012. After totaling various categories of MPC imports and food-grade casein - in consultation with a USDA data specialist - we then converted the annualized January-February import totals to milk protein. Those annualized, total dairy protein imports are depicted as blue vertical bars in the graph at right. Then, *The Milkweed* projected USDA's annual "All Milk Price" (as dollars per hundredweight) as a red line stretching across the top of the graph.

Clearly, huge quantities of imported dairy protein (MPCs & food-grade caseins) enter the U.S. during the first two months of those rock-bottom milk price years ... '00 ... '03 ... '06 ... '09 and now '12. The unseemingly correlation between combined, big Jan.-Feb. dairy protein imports and U.S. dairy farmers' shabby milk prices for the entire calendar year raises questions about the integrity of U.S. milk pricing. Have ... indeed, are ... dairy protein imports strategically timed, early every three years, as a devious strategy to keep U.S. dairy producers on their knees (or worse) financially? Sadly, many of

Total Jan.-Feb. Milk Protein Imports by Year, 2000-2012  
Compared to Annual U.S. All-Milk Price



This graph details the annual protein content of imported Milk Protein Concentrates and food-grade caseins. MPC imports were valued at 70% protein. Casein is estimated at an average protein content of 82%. The same analysts who uncritically discuss the "every three year milk price drop" are "experts who discount the impact upon U.S. dairy supply-demand (and prices) of these high-protein imports. Credit for these research insights go to John Bunting and (no relation) Sherry Bunting (writing in *Farm Shine*, a weekly dairy paper). Recently, those

Protein Imports - new price-manipulation tool? Starting in the late 1990s, extensive reporting in *The Milkweed* has focused on many aspects of the MPC imports ... including the legality of their use in human foods sold in the U.S.

Upon reflection, it's very likely that in the late 1990s, after Kraft Foods was chased out of the National Cheese Exchange for alleged manipulation ... Kraft Foods' dairy higher-ups strategized that imported dairy proteins could be used to depress U.S. dairy commodity costs.

MPC imports started appearing in the late 1990s. Kraft Foods, a giant "cheese" presence that overshadows dairy, widely incorporated MPCs into front & cheese to "cheese" and "cheese whiz."

Problem is: MPCs is not a legal food ingredient in the U.S. MPC has never been subjected to the Federal Food and Drug Administration's mandatory GRAS (Generally Recognized as Safe) food ingredi-

## Protein Imports Disrupt U.S. Markets, cont'

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ent human safety testing. Kraft Foods casts a giant political shadow in Washington, D.C. About twelve years ago, *The Milkweed* stirred a furor, noting that Kraft "Singles" contained MPC. At that time, Kraft "Singles" were marketed as "Pasteurized Processed Cheese Food" - a product with an FDA standard of identity. When food products are marketed as products with standards of identity, those products must conform to specific approved ingredients, without deviation. MPC was not listed as an approved ingredient for "pasteurized Process Cheese Food."

FDA claimed, and continues to claim, that the agency does not have the financial resources to enforce illegal MPC use in human foods. But FDA needed three years to stop Kraft's illegal "Singles" marketing. Finally, in November 2002, FDA sent Kraft Foods a warning letter, ordering halt to use of MPCs in products designated as "Pasteurized Process Cheese Food." That dictate followed, by one month, a report by dairy farmers at World Dairy Expo, where which an array of MPC-laden Kraft Foods products were arrayed in an old toilet bowl. A color picture of that display was printed on page 1 of the *Wisconsin State Farmer* (a weekly farm paper). Later, FDA officials confided to cheese industry sources that "politics" had delayed enforcement of laws.

### What to do?

*The Milkweed* has regularly reported on the many evils: manipulating commodity markets and farm milk prices for private gain - including "usual suspects" such as Dairy Farmers of America, Kraft Foods, and cheese traders at the Chicago Mercantile Exchange. We have warned about the dangers of "Price Trade" to dairy in this era of globalization. Now the emergence of a clear pattern reveals that global forces can be just as harmful as the "usual suspects" at home.

Now that we've better understood the role of milk protein imports in destabilizing farm milk prices, the question is: What are U.S. dairy farmers and politicians in Washington, D.C. going to do about it? This is an election year. Will the nation's dairy farmers - and the consumers who depend on them - send a message in November? That remains to be seen. The issue of food integrity - particularly the use of illegal dairy proteins - must be forged as a consumer issue, because, like the "Old Grey Mare" the farm vote "sits" what it used to be.

*The Milkweed* believes that YOGURT may offer the greatest opportunity for public protest over illegal use of dairy proteins in standardized products. Besides being outside FDA's rules for yogurt, many extra dairy proteins found in yogurt do not conform to GRAS nor Grade A dairy sanitary codes. FDA has not enforced yogurt standards since 1981!

# Protein Imports Disrupt U.S. Dairy Markets, Weaken Producers

by Pete Hardin

Are milk protein imports deliberately timed to destabilize U.S. milk markets and financially undermine dairy producers in this country, like clockwork, every three years? Based on the evidence — official import data, broad U.S. farm milk pricing trends, and continuing hard times on dairy farms across the nation — that conclusion is clear: Yes!

Going back to the year 2000, repeating cycles of three-year surges in the volume of imported Milk Protein Concentrates (MPCs) and caseins during the months of January and February coincide neatly with big, year-long dips in raw milk prices at the farm gate. The timing of those import surges early in the year is a consistent and important factor. This pattern is certainly disturbing and destructive, but is it more than simple coincidence?

The *Milkweed's* analysis of U.S. dairy import data and USDA's reported national "all-milk" price received by dairy farmers between January 2000 and April 2012 reveals this very disturbing pattern. Beginning in 2000 and repeating every three years, a spike in the volumes of foreign Milk Protein Concentrates (MPCs) and food-quality casein imported into the U.S. during the months of January and February coincide directly with a sharply lower average all-milk price for that entire year. This repeating, three-year pattern can be seen clearly in 2000, 2003, 2006, 2009 ... and again in 2012 — based on the four months of eroding farm milk prices so far this year.

The complex relationship between milk protein imports and U.S. milk prices is best seen and understood in graphic form. The accompanying charts on this page — plus the summative chart on page 1 of this issue — demonstrate the volumes of imports of MPCs and casein during the months of January and February for each year beginning with the year 2000. The data, provided by USDA Foreign Agricultural Service (FAS), include the following three milk protein imports classified under the following Harmonized Tariff Schedule of the United States (HTS) import codes:

- Chapter 4 MPCs imported under HTS 0404901000,
- Chapter 35 MPCs imported under HTS 3501101000, and
- Chapter 35 food-grade casein imported under HTS code 3501105000.

Our analysis included the national average annual "All-Milk Price" reported by USDA's National Agricultural Statistics Service (NASS). The NASS all-milk price is a national average price which factors out local and regional variations in pricing under the federal and California milk marketing order programs.

### A meaningful comparison ...

Chapter 4 MPCs, Chapter 35 MPCs and Chapter 35 caseins all have widely varying protein contents. To provide a meaningful comparison of these products, we standardized the two categories of MPCs at 70% protein and the caseins at 82% protein — the levels recommended by USDA and university dairy experts familiar with these products. Using these adjustment factors, import volumes for the two months of each year were standardized for protein content and then totaled by year for purposes of comparison.

The colorized graph on page 1 displays the total annual volume of imported milk proteins for the first two months of the years, 2000 to 2012, along with the NASS All-Milk Prices for those years. Lacking annual farm milk data for 2012, we simply insert question marks. Based on current stressed dairy commodity market trends, short-term farm-gate milk prices appear headed lower, confirming the broader pattern. Bar graphs 1 and 2 on this page show the volumes of MPCs and caseins, respectively, imported each year during the months of January and February from 2000 to 2012.

### Suspicious confirmed by imports & milk price data

The first clues of this sinister trend were provided by the farm milk crisis of 2000, which came as

the effects of globalization and broader U.S. economic deregulation began to take hold in earnest. The national average All-Milk Price that year fell to \$12.40 as thousands of dairy producers were forced out of business. The cyclical milk-price crashes during the past decade-plus — which appear to be taking place again this year — provide further confirmation.

After the crash of 2000, *The Milkweed* writer John Bunting and others became suspicious of U.S. dairy market trends in the new decade. The now-familiar pattern — a farm milk price collapse followed by anemic, short-term recovery and then repeated collapse — was being caused by some sinister new market force not seen in past decades. Acting on those suspicions, we dug deeper. The search led to the timing of milk protein imports.

Searching through the dense thickets of federal dairy import and milk-pricing data, a disturbing pattern emerged: A spike in imported milk protein imports during the first two months coincides with a sharp drop in the national annual all-milk price for the entire year. In 2000, 2003, 2006, 2009 ... AND THE FIRST FOUR MONTHS OF 2012.

### Is timing a deliberate strategy?

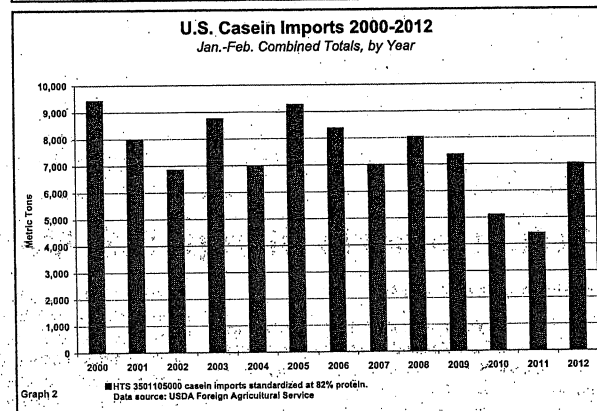
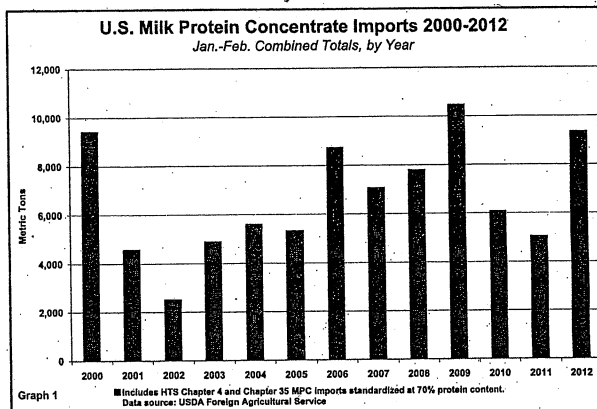
This vicious cycle — a spike in MPC and casein imports every three years during January-February, followed by year-long, of depressed farm milk prices — appears to an intentional, deliberate strategy to weaken U.S. dairy farmers. It's not clear yet whether this pattern is the work of one or more major milk protein exporting countries and/or a very large dairy products marketer seeking to gain U.S. market share and/or eliminate competitors on the world stage. Since harmful "Free Trade" agreements started mushrooming in the 1990s, respected traders have noticed similarly disruptive import timing/dumping patterns for other key agricultural products, both in the U.S. and Europe.

New Zealand's DNA is obvious on dairy imports hitting U.S. shores. Other globally-traded commodities — such as butter and lamb — have demonstrated similar games played by the Kiwis: history of key timing for imports designed to have maximum negative impact on farm commodities in nations on the receiving end of New Zealand's exports.

Whatever the motive, the strategy is working — dairy farms across the country are bleeding serious red ink as production costs skyrocket and milk prices fall through the floor. Can this be mere coincidence? We think not!

The pattern also coincides with the trend toward more volatile dairy markets experienced with the weakening of federal dairy "safety net" programs in the late 1990s and so-called federal milk order "reforms" mandated by Congress which took effect in 2000. The dairy import-milk price pattern also coincides with the broader U.S. financial deregulation responsible for the worst global economic harm since the Great Depression.

Rather than fix the problem, CEO Jerry Kozak and other "Free Traders" at the National Milk Producers Federation (the big dairy co-op lobbying group responsible for much of this mess) are busy wasting dairy farmers' scarce political capital in pursuit of a foolish, insurance-based dairy margin pro-



tection program. National Milk's scheme also includes a dairy market stabilization program, which would require U.S. farmers to reduce milk production in times of eroding farm milk prices — including those caused by milk protein imports.

### Fonterra is prime suspect?

New Zealand's Fonterra — the world's largest and most aggressive dairy exporter — has to be the prime suspect in this conspiracy to weaken and eliminate American dairy farmers.

New Zealand is the largest single source of MPCs and casein imported into the U.S., accounting for 48,278.10 metric tons — more than 97% — of MPC Chapter 4 imports in 2008. To put New Zealand in perspective, Australia was a very distant second source of MPC Chapter 4 imports that year, at 702.7 metric tons for the year. Singapore — not a dairy producing nation — was third at 224.4 metric tons, and Germany was fourth at 201.8 metric tons.

New Zealand is "colonizing" the U.S. and other dairy competitors around the globe as it grabs market share from Americans and dominates global dairy markets. *The Milkweed* has regularly reported on Fonterra's joint-ventures in the U.S. — DairyConcepts with Dairy Farmers of America and DairyAmerica with several big U.S. milk powder producing co-ops.

### No limits on milk protein imports

U.S. dairy markets are weak due to a serious structural flaw: In the absence of any effective import controls, milk protein imports are being manipulated to disrupt market equilibrium and destabilize domestic producers. American politicians set the stage for this disaster — unilaterally disarming by giving up Section 22 dairy import quotas in exchange for empty promises of export opportunities under the World Trade Organization.

National Milk Producers Federation bigwigs sold dairy farmers out as U.S. negotiators traded Section 22 import protections for concessions benefiting Wall Street, big banks, high tech, and other global corporate interests. The late Tom Camerlon, then-NMPPF president and a top U.S. trade advisor at the time, was in Geneva, Switzerland at the Uruguay Round of the GATT (General Agreement on Tariffs and Trade) as the big deals were being cut in 1994.

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